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MENU OF INCREMENTAL TAX ALTERNATIVES

						Tax Principles	
		Annual				Most Advanced	Most Eroded
Description		Estimated Impact	Advantages	Disadvantages		By Tax	By Tax
User Fees & Dedicated Taxes							
1	Replace taxes on private goods with user fees	• Charges paid directly by users or by those imposing burdens	• Revenue neutral	• Perceived as fair • Helps allocate scarce resources • Lowers taxes for public goods	• Burdens low income • May be inappropriately applied	• Equity (benefits principle)	•
2	Avoid, reduce dedicated taxes except "user fees"	• Avoid new dedicated taxes except user fees on those being regulated or directly benefiting	• Revenue neutral	• Improved compliance • Fewer legal challenges • Less complex		• Stability • L-T Adequacy • Simplicity • Equity	
Business Taxes and Incentives							
3	Exempt construction labor from sales tax	• Exempt labor portion of construction contracts from sales tax.	• \$400 million loss	• Encourages business investment • Encourages homeownership	• Complex for contractors to maintain separate accounting of contracts.	• Competitiveness	• L-T Adequacy
4	Exempt start-ups from the B&O	•	•	•	•	•	•
5	Increase small business credit	• Double the credit to \$70 a month, phase out at \$140	• \$28 million loss	• B&O creates burden for smaller firms that tend to be less profitable	• New and expanding firms may unprofitable, but too large to receive credit	• Competitiveness • Equity	• L-T Adequacy • Stability • Neutrality
6	Review and retarget business incentives exemptions	• Review discretionary business exemptions • Perform sunset view of all new exemptions • Retarget exemptions	•	• Exemptions that outlive their purpose are rarely repealed	• Uncertainty	• Neutrality • Simplicity	
7	Re-visit B&O rate structure and apportionment	•	•		•		

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Taxes on Property and Assets								
8	Property tax homestead credit against state levy	• Credit on first \$20,000 of residential value	• \$43 million loss in state levy	• Makes an unpopular tax more palatable	• Not targeted to low income	• Equity	• L-T Adequacy	
9	Property tax relief or deferral targeted by income	• Similar to senior exemptions but available to all low-income homeowners	• Tax shift on to existing property owners	• Targeted low-income tax relief	• No means for county assessors to determine income	• Equity	• Simplicity	• L-T Adequacy
10	Estate tax	• 100% state credit	• \$25 million FY03 rising to \$100 million in FY06	• Taxes the accumulation of wealth	• Out of sync with feds	• Equity	• Simplicity	
		• \$700,000 threshold			• “Stand alone” inheritance & estate tax in 13 states	• Transparency	• Neutrality	
11	Tax on the market value of motor vehicles	• Similar to property tax	• \$400 million	• Broadens the tax property tax base	• Motor vehicle excise tax repealed effective in 2000	• L-T Adequacy		
		• Tax base is market value		• Most states tax the value of motor vehicles		• Transparency		
		• Tax rate at 1% annually						

Sales/Use Tax

12 Extend sales tax to consumer services	• Tax on consumer services, e.g., beauty/barber, cable TV, residential phone	• \$334 million - all consumer services • plus \$45 million residential phone	• Captures the shift from a goods-to service-based economy • Broadens the tax base • Consumer services only--taxing business inputs disadvantages non vertically integrated firms	• Few states tax services • Recent attempts to tax services in other states have failed	• L-T Adequacy • Stability • Equity	• Competitiveness • Economic neutrality
13 Streamline sales tax	• Enact uniform legislation along with other sales tax states • Common definitions • Simplified administration	•	• WA relies more heavily on sales tax than almost all other states • Simplicity for multi-state retailers	• May be some loss of flexible state and local authority over sales tax.	• L-T Adequacy • Simplicity	•
14 Compensate retailers for collecting the sales tax	•	•	•	•	•	•

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Local Fiscal Capacity						
15 Give state property tax levy back to local govt.	• Eliminate state school levy	• \$1,396 million loss	• Tax more appropriate as local source	• Need to find alternate source for school funding	• L-T Adequacy (Local) • Stability • Simplicity	• L-T Adequacy (State)
16 Simplify local B&O	• Define common tax base • Resolve apportionment issues between business and cities	• 39 cities collect \$200 million in tax • Substantial shifts in revenues likely	• A large potential source of taxing authority • Easier for business to comply	• May be some loss of flexible local authority over B&O tax	• Simplicity	• L-T Adequacy (local) • Stability

Rainy Day Funds/Trigger Mechanisms

17 Rainy Day Fund	•	•	•	•		•
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Impacts are preliminary Department estimates.
**Tax alternatives are evaluated on the basis of the following principles: Simplicity, Economic Neutrality, Equity/Fairness, Stability, Transparency, Interstate Competitiveness, Long-Term Adequacy